

**EXPORT DEVELOPMENT, DIVERSIFICATION, AND COMPETITIVENESS:
HOW SOME DEVELOPING COUNTRIES GOT IT RIGHT**

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Introduction:

In recent decades, export competitiveness in a changed and increasingly changing world has been at the heart of growth and development debates in almost all countries. Drawing upon the lessons of experience of the most successful exporters in the developing world¹, this paper provides an overview of institutions and policy practices successfully experienced for the expansion and diversification of exports, and the strengthening of industrial competitiveness in some developing countries.

Although exports are important for growth and development, developing countries have been struggling with the challenge of expanding and diversifying their export baskets beyond their primary product bases for a long time. Based on research in recent two decades, it is now well established that, openness to trade and integration into global markets is a central element of successful growth strategies; and higher and sustained economic growth is associated with export growth (Dollar and Kraay (2001).

Against the background of growing disparity in income between the developed and the developing world due in large part to divergence in industrial competitiveness, the central question has always been: what can and should be done in developing countries to boost their export growth, accelerate their export diversification and enhance their competitiveness in international markets? While there is considerable agreement on some of the policy lessons learned from successful exporters of the developing world (need for sound macroeconomic management, appropriate exchange rate and general encouragement to exporters), there is more controversy on the role and usefulness of some other policies and particularly on selective policies targeted to specific activities. However, a look at the experience of the most successful exporters of the developing world that were able to reverse more than a hundred years of sluggish development and achieve unprecedented manufacturing performance, suggests that they may have done something right.

After clarification on the importance of exports and related basic concepts - export development, export diversification, and export competitiveness - (Section 1), this paper examines the rationale, role, and usefulness of export oriented trade policy measures and selective industrial interventions policies in the context of developing

¹ The most successful exporters of the developing world include: the “original Asian tigers” (Hong-Kong, South Korea, Singapore and Taiwan), the “New Asian tigers” (Indonesia, Malaysia, and Thailand), as well as China, India, Argentina, Brazil, Chile, Mexico, and Turkey. Since Alice H. Amsden, (2001), some authors refer to these countries as the “ Rest” in contrast to the “ West” in relation to their late industrialization. High Performing Asian Economies (HPAE including original tigers, new tigers and Japan) were particularly able to achieve highest sustained growth (25 times faster than Sub-Saharan Africa since 1960) combined with equitable income distribution.

countries (Section 2). Because the past can be the best guide for the future, the paper also reviews policy practices and institutions that have played a critical role in export development and industrialization of the most successful exporters of the developing world (Section 3). The paper concludes with a brief highlight of challenges to be faced by late industrializers in an increasingly globalized world.

I. Why Exports matter?

Export growth, defined as the expansion of exports in volume and value, is recognized since the mercantilist era, as critical for any country for a variety of macro and microeconomic reasons including the: (i) need to generate foreign exchange vital to finance imports; (ii) need to exploit larger scale economies that can be achieved by producing for export markets, given the small size of many developing countries and their negligible purchasing power; and (iii) potential contribution to employment and growth of national product. Increasing exports is therefore a key concern for development economists and policy makers in all developing countries, and integration to global markets brings with it exposure to new technologies, new designs and new products while enhancing production efficiency and competitiveness.

Export development entails promoting export growth accompanied with improved quality and structural transformations (e.g. increasing the share of a country's exports in dynamic rather than stagnant products in world trade, expanding shares of exports sectors or employment associated with raising living standards and country's overall competitive position, enhancing country's performance in a particular export category, and structure and improving the quality of jobs generated in the export sector). Higher export growth without structural transformation of export patterns (e.g. higher export concentration in some products subject to major price and volume fluctuations), may not be conducive to development. Hence, what a country exports matters.

Export diversification aims at moving away from a limited basket of exports in order to mitigate economic and political risks of dependence upon a few primary commodity exports. When export is concentrated in a few primary commodities, there can be serious economic and political risks. Economic risks include: in the short term, volatility and instability in foreign exchange earning which have adverse macroeconomic effects (on growth, employment, investment planning, import and export capacity, foreign exchange cash flow, inflation, capital flight and undersupply of investments by risk averse investors, debt repayment); and in the long term, secular and unpredictable declining terms of trade trends which exacerbate short run effects. Political risks include worsened governance and risk of civil war in fragile states; as recent research (Collier, 2002) shows that primary commodity dependence is associated with various dimensions of poor governance; and the risk of conflict is strongly related to the level and growth of income, as well as its structure as reflected in the dependence upon a few primary commodity exports. Heavy dependence on a small number of primary commodity products exposes a country to the negative effects of unfavorable characteristics of world demand and negative supply side features of these primary products. On the *demand*

side, the low income elasticity of world demand of primary commodities can lead to falling export revenues which can be exacerbated by historically downward trends in primary commodities relative to manufactures. Although, according to Cashin and Mc. Dermott (2002), real commodity prices have declined by about 1% per year over the last 140 years, volatility and persistence of commodity price shocks can have more dramatic consequences than the long term downward trend of commodity prices. On the supply side, the combined effect of lower skills and technology content of commodity production and its negligible backward and forward linkages with the rest of the economy usually lead to negative growth spillovers.

A diversified portfolio could help minimize volatility in export earnings and boost overall growth by replacing primary commodities with positive price trends products and adding value through additional processing or marketing. As traditional exports are particularly vulnerable to exogenous shocks and face limited demand due to their low income elasticity and declining terms of trade, diversifying away from traditional exports is expected to raise growth rates and lower their variability. Hence, export diversification can also aim at improving backward and forward linkages to domestic inputs and services, and expanding opportunities for export in existing or new markets. Reducing dependence upon one or a limited number of geographical destinations or origins can also be a major objective for export diversification.

Export competitiveness is at the center of all policy discussions in all countries. The term appears to be very obvious to many people, but its definition is quite problematic, meaning different things to different people (mercantilists, classicists, strategists, or realists)². The concept can be analyzed and assessed both at the micro (firm), meso (sector), and macro (nation) levels; with the definition of competitiveness for a nation being more complex than for a firm or an industry.

At the micro-level, export competitiveness can be defined as the “ability of a firm to compete on domestic and international markets”. A firm will be said to be competitive if it can produce products and services of superior quality, at lower costs than its domestic and international competitors (Buckley, P.J.; C.L. Pass.; and K. Prescott, 1988). From that perspective, export competitiveness of a country essentially depends on its domestic enterprises (Metcalf, Ramlogan, and Uyerra (2003)). The competitiveness of domestic enterprises / firms in turn depends on their ability to expand and sustain their positions in international markets –directly or indirectly- by supplying quality products, in desired quantities, on time, and at competitive prices; and by responding quickly to changes in demand through development of innovative capacities and market strategies. As Small and Medium Enterprises (SMEs) in developing countries are responsible for most employment and income generation opportunities, and account for the bulk of production in manufacturing as well as a growing share of services, enhancing their export capacities is essential for access to regional markets and global chains of production. At the micro-level, competitiveness can be measured by international differences in factor costs and

² Krugman, P (1994, 1996)

productivity, its relative prices, market share, or degree of profitability). Micro indicators, such as unit labor costs and production factor costs (electricity, water, telecommunication, etc), can also be used. In a world where capital is mobile and production is footloose between countries, it is the relative price of non-tradable inputs, such as labor, rather than outputs that matters. Firms will tend to source production in countries where unit costs are low; and the exchange rate can be a key factor here.

At the meso and macro levels, a nation's competitiveness can be defined as the "ability of a nation to compete" or the "ability of a country to produce goods that meet the test of international markets, while simultaneously maintaining and expanding the real income of its citizens"³. Using the simplistic dichotomy (lower price/ best quality), international price competitiveness can be assessed based on evolution of its market shares and the real effective exchange rate; using aggregate price indexes to measure relative prices. Other macroeconomics indicators can include Revealed Comparative Advantage (RCA), Domestic Resources Cost (DRC), FDI inflows, export performance, or Total Factor Productivity (TFP). International competitiveness compares potential or actual success in: exporting, attracting foreign direct investment (FDI) and increasing real incomes in an increasingly globalized world where countries are competing for export market shares and internationally mobile industries. A country's competitiveness can be assessed using alternative measures of international competitiveness. A narrow definition of competitiveness can be defined as prices and costs in a country relative to other countries, measured by real effective exchange rates at the macroeconomic level. In a narrow sense, competitiveness can refer to comparisons of prices or costs across countries. Several variables can be used as narrow indicators. In the broader sense, competitiveness can also refer to the comparison of favorable economic outcomes or business climates across countries. The outcome-based measures include high productivity, in level or at growth rates⁴. A similar definition of competitiveness is export success accompanied by rising living standards⁵. Competitiveness measures in the broader sense are available in the International Institute for Management Development's competitiveness rankings published in the World Competitiveness Yearbook, and in the World Economic Forum's Global Competitiveness Report. Although broad scores of competitiveness are composites of a series of indicators (structural and macroeconomic policies, basic infrastructure, education, labor market rigidities, etc⁶), their rankings can capture features of the broader business climate.

Although competitiveness is created at the firm level (Meyer-Stamer,1995), it emerges from complex patterns of interactions between several stakeholders including: the Government, private sector, and other institutions. Given the multifaceted nature of competitiveness, the policy package for enhanced export competitiveness requires actions

³ The U.S. Presidential Commission on Industrial Competitiveness (1985),

⁴ Dollar and Wolff (1993), Krugman (1994)

⁵ Markusen (1992) and Hatsopoulos, Krugman and Summers (1990)..

⁶ This is the approach of the International Institute for Management Development in the *World Competitiveness Yearbook*'s competitiveness rankings, and the Global Competitiveness Report produced by the World Economic Forum.

at the level of each key stakeholder (UNCTAD, 2004). Actions by the Government include: declaration of a political commitment to export competitiveness at the highest country level, a coherent policy framework in attracting FDI (adequate macroeconomic framework, adequate taxation, improvement in trade facilitation and reduction of tariff and non tariff barriers, trade liberalization and business friendly environment), incentives to support exporting SMEs, measures to improve exporting SMEs access to finance, measures to enhance backward and forward linkages. Actions by the private sector include: promotion of associations with renowned trading houses and linking with Transnational Corporations (TNCs); establishment of clusters to allow for proximity to sources of raw materials and other inputs, availability of suitably customized business development services, presence of skilled labor force and abundance of clients attracted by the cluster tradition; development of financial and non-financial-business services.

II. Theoretical Rationale, Role, and Usefulness of selective Government interventions in support of Export Development and Diversification

This section analyses the rationale, role, and usefulness of selective Government interventions in trade, and industry development. The section also justifies the focus on export development and diversification, and summarizes what the literature says about Government intervention in export development and diversification.

The role of intervention in export promotion and diversification performances has resurged in economic policy debates in recent years. The controversy is not new and can be traced back to decades or centuries (Reinert (1995). and as faster economic growth happens in developing countries with structural transformation from low productivity of traditional sectors to high productivity of modern/ industrial activities (A. Lewis, 1954), the central questions remain the same: How do countries transit from production of low value added primary products to production of high valued added manufactured products? How do countries achieve international industrial competitiveness? What are the kinds of policies and institutions required to accelerate industrialization and overcome underdevelopment? What explains the miraculous transformation of HPAE from underdevelopment to emerging economies?

As rapid industrialization is strongly perceived as a means for sustainable economic growth, no issue has attracted so much attention in the development debate than the issue of how to transform the fragile industrial bases of developing countries into competitive and robust ones. Two school of thoughts (neoclassical and structuralist/ revisionist) stand out in the literature to address these complex questions(T. Mkandawire and C. Soludo (2003), Sanjaya Lall (1997, 2000).

The Neo-classical approach. For several decades, the prevailing intellectual consensus on how to accelerate industrial development and growth has been heavily influenced by the neo-classical approach which is based on a mixture of theoretical,

empirical, and political considerations. According to this school of thought based on the original trade classical model developed by A. Smith (1776), D. Ricardo (1817) and J.S. Mill (1848), the best strategy for all countries and in all cases was simply to liberalize with the hope that their natural comparative advantage will be realized with resource allocation driven essentially by free markets. Although the neo-classical approach has evolved in recent decades (Balassa (1982), Krueger (1980)) to recognize that there is a role for the state (provision of basic public goods, besides law and order and a sound legal system), and the state has a role in providing non-selective or functional support for health, education and infrastructure), the neoclassical approach still defend the idea that any policy intervention that affects the prices will by definition be distorting and move the overall society away from optimal resource allocation permitted essentially by free markets.

On theoretical grounds, if markets worked perfectly, resource allocation would be optimal and there would be no grounds for government intervention. It is now well established that export promotion and industrial policy like all government interventions is justified by the presence of market failures (Rodrick, 2009). A market failure is a departure from Pareto optimality which would in theory occur in a market clearing equilibrium under conditions of perfect competition. The particular set of market failures and related remedies is an empirical issue depending on the country and time. In many cases, factor markets failures are likely in physical infrastructure, labor markets, capital markets, technology imports and various institutions. Products markets failures can be related to lack of information and high transaction costs in marketing, oligopolistic market structures, and effects of international competition on new market entrants. Market failures highlighted in the neo-classical approach that justify selective interventions include: capital market deficiencies (caused by information gaps, asymmetries and moral hazard), lumpiness of investments (scale economies), and inability of individual actors to invest rationally when there are interdependent investments. In the presence of significant scale economies, and learning externalities, other theoretical justifications for industrial policy include the: need to coordinate competing investments not only between complementary projects but also between competing projects; need for organization of domestic firms in their interactions with foreign firms/ or foreign governments; need to provide some “social insurance” for firms in temporary difficulties, or need to promote structural changes or technology upgrade for structurally depressed industries (Chang, 2006). Based on the neo-classical position, and assumptions that markets are efficient and that getting prices right is necessary and sufficient for an economy to achieve optimality in world trade, functional policies⁷ are all that is required for export promotion, and the Government should implement free trade and have nothing to do with all interventions in resource allocation.

Information economics (Stiglitz, 1996), however, indicates that in the case of developing countries characterized by widespread asymmetries and imperfect information markets, diffuse and rife externalities and highly imperfect and incomplete markets, free markets can not meet the requirements for optimality in resource allocation.

⁷ Functional interventions (or market friendly policies) are aimed at remedying market failures without influencing resource allocation between specific activities.

Costs of market or institutional failures are born disproportionately by the modern/ industrial sector which is subject to both learning spillovers and coordination failures, externalities in knowledge, and high costs imposed by weaknesses in legal and regulatory institutions (Rodrik (2009)). Hence, because markets work poorly in developing countries, there is need for a separate approach.

The structuralist/ revisionist approach. As none of the countries that successfully integrated into world markets in the last 30 years (the original Asian tigers and new tigers, as well as China, India, and Brazil) is an unambiguous story of export growth achieved exclusively by unequivocal trade openness and free markets; it is increasingly being recognized that the success achieved by the most successful exporters in the developing world- and particularly the original East Asian Tigers and new Tigers - was based on unconventional combinations of both permissive and positive policies (both functional and selective) to promote export growth, and export diversification.

Depending on the nature of market failures, the structuralist/ revisionist theoretical literature (Sanjaya Lall (1997, 2000), A. H. Amsden (1989, 2001, 2007), Robert Wade (1990), Westphal (1982, 1990) distinguishes between “permissive” policies and “positive policies”.

Permissive policies are aimed at “removing” distortions that deter exporting, in order to “**permit**” better resource allocation. These policies are generally uncontroversial and accepted by almost everyone. They are achieved mostly through a combination of price, fiscal, exchange rate and monetary policy tools. Offered essentially via special import regimes (described in Section 2), permissive policies aim at “removing” distortions and include: “removing” high rates of domestic protection, “removing” high inflation, “removing” high interest rates, “removing” price controls or taxes, “removing” cumbersome procedures at entry or exit; “removing” policy volatility and uncertainty; “removing” or reducing macro-policy mismanagement, “removing” overvalued exchange rates, and “removing” or reducing biases against exports ,to make exporting profitable and minimize transaction costs to exporters, without influencing resource allocation.

“Positive” policies are aimed at tackling the cost and deficiencies in stimulating new areas of export activities. These “add” another policy tool to the battery of measures to boost export performance and include: raising the quality or improving competitiveness cost of existing or new activities; supporting small enterprises to enter export markets, lowering informational costs, as well as cost for setting up distribution systems in foreign markets; enhancing domestic content, etc... Positive policies can in turn be subdivided into functional and selective policies. Functional policies are across the board measures with no intent to shift resource allocation, while selective policies are targeted to specific firms, sectors or activities with clearly declared and deliberate intent to shift resource allocation.

Functional interventions also coined “market friendly policies” are aimed at remedying market failures **without influencing resource allocation** between specific activities, without targeting particular activities or firms. They include for example: actions to improve physical infrastructure, or general skills/human capital, provision of export market information and technical support to help potential exporters overcome cost and risks of unfamiliar and risky international markets, actions to favor SMEs over larger enterprises. While there is less controversy on the role and effectiveness of functional policies, selective policies trigger the most controversy.

Selective interventions aim at influencing resource allocation, or remedying market failures for specific activities while favoring selected activities over other ones. These policies also dubbed “productivist policies” (Rodrik, 2009) have been followed by all successful countries. They attempt to enhance relative profitability of non-traditional products/ modern industrial activities and accelerate movement of resources towards industrial activities facing large information externalities or coordination failures or poor institutional environments. In recognition that in the absence of selective policies, export growth and diversification are likely to be quite slow, policy makers in the successful exporters in the developing world promoted various forms of industry specific policies via measures such as outright protection, industry specific promotion via investment, productions and export subsidies, creation of specific skills or technology support to upgrade quality, design, productivity and R&D, directed or subsidized credit allocations to promote specific firms (e.g. large firms) or particular types of firms and industries (industrialization based on SMEs or heavy industries and high tech), policies towards attracting specific FDI investors, human resource development, technology support and export marketing. Selective intervention policies target specific firms or sectors and privilege some at the expense of others. They entail explicit industrial policies in support of new activities (trade protection, subsidies, tax and credit incentives, special government attention) undervalued currencies to promote tradables, and eventually subsidized credit, and supportive development banking. (Rodrik, 2009).

The role of selective industrial policy has been one of the most controversial dimensions of the debate on the experience of the most successful exporters of the developing world. Until the end of the 1980s, many neo-classical economists still doubted the effectiveness of selective industrial policy. In the light of the experience of the success of East Asian successful exporters (World Bank, 1993), it is now generally accepted that selective industrial policies make theoretical sense and can be successful in certain circumstances.

Although the distinction between functional and selective export promotion policies appears to be useful in theory, that distinction may not always be crystal clear, and may be difficult to apply in practice. Building on the lessons of experience of successful exporting countries, there is, however, a growing consensus that:

(i) Besides “getting fundamentals right”, successful exporting countries did adopt a wide range of selective measure [e.g. fiscal and direct credit incentives, selective

subsidies] which can under right conditions help firms improve their export competitiveness by solving coordination failures and providing services which have the nature of public goods.

(ii) Trade reform alone will not by itself be sufficient to deliver large supply responses in terms of expanding trade volumes, increasing export varieties, and attracting FDI inflows, as other considerations including lack of adequate infrastructure can prevent local farmers or producers from expanding production of raw material materials for export, and the lack of an enabling environment can stifle entrepreneurship and innovation.

(iii) Reducing transaction costs and improving local business conditions can help firms expand more quickly to emerging opportunities and challenges coming from ongoing policy reforms.

(iv) A flexible combination of state intervention and market forces, open trade and selective transitional protection, micro and macro-policies, and public and private partnerships can play a key role in the improvement of developing countries' export competitiveness and integration of their industries and SMEs into global supply chains.

III. POLICY PRACTICES AND INSTITUTIONS FOR EXPORT DIVERSIFICATION AND COMPETITIVENESS:

This section summarizes policy practices and institutions used extensively in the most successful exporters of the developing world to promote the growth, diversification, and upgrading of their manufactured exports. Overall, using the classification described in the first section of this paper, successful export developing countries used a mixture of permissive and positive policies to accelerate their export growth and diversification.

The gamut of policy practices and institutions which led to the rapid skill formation and industrialization in successful exporting countries of the developing world was carefully built, diligently developed and tested over many years (Amsden, 2007). In early years of this effort to promote industrialization in developing countries, where prices were significantly distorted to allow production of competitive exports, the first experiments of successful exporters which occurred in East Asia in the 1950s and 1960s, focused on getting the price right by allowing exporting manufacturers located on a geographically limited space, to buy their imported inputs at world prices. This explains the focus in earlier stages on Export Processing zones which afforded access to imported input at world prices and often more advantages. Because despite the installation of EPZs, only few firms geographically located in the EPZs took advantage of duty free concessions offered, policy makers in their drive to boost exports by all means went a step further and offered duty drawback or temporary admissions on imported inputs used to export for all firms in the country; hence applying alternatives that have always been in the books. As results with duty drawback to all firms in the country continued to be

mixed, policy makers went a step further by offering subsidies in various forms to exporting manufacturing industries. Compounded to duty free taxes on imported input, export subsidies which started in the textiles industries in the 1950s were systematized in almost all successful exporting developing countries (with the exception of Argentina) in the 1960s and expanded to other sectors; strengthening the array of policy tools of special import regimes for exporters. Hence free access to imported inputs to exporting firms, subsidies and various other complementary measures formed the basis of the standard permissive and positive policies used to accelerate export growth and diversification.

A. Permissive Policies in practice

As tariff and non tariff barriers significantly distort prices, and hinder imports and exports, as well as industrial production, access to imports at world prices for exporters were central pillars of permissive policies. Permissive policy measures were usually achieved by means of tax privileges and subsidies through Special Import Regimes (clarified below) to grant duty free access to imported inputs for exporters, hence removing or reducing price distortions, and correcting anti-export bias. Special import regimes were supplemented by other measures to encourage exporters including: measures to remove/reduce high transactions costs for exporters through efficient streamlined admissions of imports/customs clearance, shipping facilities; both long and short term financing (across the board programs to facilitate access to credit via Central bank monetary policy) and effective use of exchange rate policies; market penetration (institutional support to all exporters to overcome hurdles on foreign markets); and flexibility (pragmatism to adapt to changing conditions).

A1. Free Access to Imports for Exporters/ Special Import Regimes. Access to imports at reduced cost for exporters in the form of Special Import regimes make it possible to shift relative incentives in favor of tradables and particularly exports; allowing export-oriented firms to import their manufacturing inputs without paying the applicable duties or taxes. Special Import Regimes were granted mostly through Duty Drawback, Bonded manufacturing or Warehousing, Duty/ Tax exemptions, Export Processing Zones (EPZs) or Temporary admissions.

These regimes are designed to remove or reduce the tariff burden to give exporters access to their inputs at world prices and make exports more competitive on foreign markets. Exempting duty/tax on input or refunding duty paid when the inputs are incorporated into the finished goods and exported help reduce capital cost and enhance competitiveness. Special import regimes help reduce anti-export bias which arises whenever the relative profitability of home market goods as opposed to export sales is raised, as a result of policy interventions and excessive regulations restricting growth-effects of trade liberalization (Bolaki and Freund 2004). When anti-export bias is created

by high protection against imports, such a bias can be corrected by explicit measures including import tax privileges, export subsidies, and export rebates contained in Special Import regimes.

- **Duty Drawbacks**

Traditionally used in highly protected economies as means to provide exporters of manufactured goods with imported inputs at world prices, Duty drawback schemes increase exporters' profitability-as against having to pay these duties, but not as against international competitors- while maintaining the protection for domestic industries that compete with imports. In practice, duties are initially paid as goods are landed. Duty drawback Refunds are subsequently provided upon shipment of export goods which include dutiable components. Contrary to duty/tax exemptions, duty drawback procedures by and large do not necessarily require firms to submit any application and pre-approval by customs. Following the exports, beneficiary firms submit a drawback claim requesting a specific amount of drawback refund of duty or tax, showing what was imported and what has been exported. Upon verification and cross check of the claim, customs will refund the duty or tax. Modes of Drawback operations include: direct identification of manufacturers, substitution drawback, same condition drawback, shipment-by-shipment based on predetermined input/output standard, pre-agreed schedule (fixed drawback schedule) whereby a list of the fixed money value of duties is refunded for one unit of an export commodity based on input/output coefficients. Countries using such schedules usually revise them on a periodic basis.

When poorly designed and implemented with inefficient procedures and burdensome requirements, Duty drawbacks can be costly for the entire economy in terms of loss of government revenue, cost to prefinance payment of duties by importers, greater opportunities for cheating and abuses, high administrative implementation costs. For example, impact expected by exporters on their imported input will be mitigated or diluted when non-tariff barriers (prohibitions, quantitative restrictions or exchange controls) are the really binding constraints on inputs. Elements to improve efficiency and effectiveness of Drawback include: (i) simplification of procedures and documents to make it easily understandable by the users; (ii) involvement of high level committees representing all stakeholders (treasury, customs, tax authorities, industry, trade) at all stages from the development of procedures, time limits for processing of refund, and eventual revisions; (iii) payment of 100% of the duties paid on imported inputs by direct and indirect exporters; requirements; (iv) automatic payments and periodic replenishment of the budget required for payments of refunds; and (v) use of pre-tabulated input/output coefficients. (see Adrien Goorman in De Wulf, L and Sokol, J (2005).

- **Bonded Manufacturing or Warehousing**

Bonded Manufacturing (BM) is a form of temporary admission, which is equivalent to suspended import duty for specified imported goods for a limited period of

time (normally until goods are either re-exported or entered into home use at which time duty/tax become payable). The term used varies from country to country: Export Only Units in India, Special Bonded Warehouses in Bangladesh, and Bonded Manufacturing Warehouses in Malaysia. The benefits are at the discretion of the governments which grant them, and rules under which they operate also vary substantially from country to country, and also over time in individual countries.

As a status given to firms which export 100% of their output, Bonded Manufacturing status allows specified firms to bring imported goods into their warehouses without paying import duty, use the goods in their production, and export the output. They can usually also import machinery and replacement parts and other supplies duty free, and buy from domestic suppliers free of domestic excise, sales and other taxes. The factories operate under the supervision of customs authorities, who check the import and export containers going to and from the bonded factory, or in some cases, rely on spot checks of the factory's inventories. These inventory checks may be assisted by pre-tabulated input-output coefficients.

Because Bonded warehousing requires extensive physical customs controls over the movement of the container from the port or airport to the warehouses, and from the warehouses to the production units, dedicated customs officers may need to be permanently posted to the warehouses, but should be rotated regularly to ensure no familiarity with the manufacturer. Poorly designed and poorly controlled bonded warehousing can be exploited by fraudsters to smuggle goods in the country. This situation easily happens in case of non-automated inventory controls. Improved computerization of recording systems and customs administrations could help improve controls of inventory balances kept in the bond, unauthorized operations while in the bond, and inspection of goods removed from the bond. Transition from physical controls to audit control has proved to be effective in reduce opportunities for corruption and for enhancing customs enforcement effectiveness. Freedom to choose location is the key feature distinguishing Bonded warehousing from EPZs (export processing zones), although bonded warehouses lack benefits of infrastructure and services sometimes provided in EPZs.

- **Export Processing Zones**

During the last decades, EPZs have become increasingly popular. Today, there are over 3,000 EPZs or other types of Free Zones in 135 countries around the world, accounting for over \$500 billion of total trade. Many developing countries have been using them as the ideal vehicle to achieve multiple objectives including: (i) enhancement of foreign exchange earnings by promotion of exports of non-traditional manufactured goods; (ii) creation of jobs and generation of income; (iii) improvement of competitiveness of exporters; and (iv) attraction of FDIs with its attendant technology transfer, knowledge spillover, demonstration effects, and backward linkages.

By and large, EPZs are spatially confined areas where governments experiment with a set of fiscal and regulatory requirements, and infrastructure that are different from

the mainland. In compliance with Article 2.9 of WTO agreement ⁸ EPZs have in recent years been shifting the emphasis from tax benefits towards infrastructure and regulatory frameworks, particularly in middle-income countries. Today's export processing zones have evolved from their original definition as "an industrial estate, encompassing an entire area of a country or entire city, all or part of an airport, all or part of an industrial park, usually a fenced-in area of 10–300 hectares that specializes in manufacturing for export." However, most EPZs normally have a secure perimeter under customs control. EPZs range greatly in size and structure, and have been undergoing substantial changes in the recent past. Although EPZs can be publicly or privately owned or managed, over the past 10–15 years the number of privately owned or managed zones has grown substantially because they are believed to achieve superior results. Hence, EPZs are increasingly developed and run by the private sector as opposed to the State, which is calling for new applications of public-private partnerships.

Benefits granted to EPZ firms (which can be domestic, foreign, or joint ventures) include: (i) duty-free imports of raw and intermediate inputs and capital goods for export production;(ii) streamlined Government procedures allowing "one-stop shopping" for permits, investment applications, etc...; (iii) more flexible labor laws compared to most firms in the domestic market; (iv) generous, long-term tax concessions; (v) more advanced communications services and infra-structure than firms in other parts of the country; and (vi) utility and rental subsidies. Many firms, called export processing firms, now also benefit from the incentives offered in the zones without being physically fenced in. In addition, countries have liberalized restrictions on domestic sales of products produced in EPZs—Columbia for example, imposes no limits on serving the domestic market on a secondary basis. Mexico, also, allows 20–40 percent of its zones' output to be sold domestically.

In the years ahead, the success of EPZs will depend on the extent to which they are integrated with their host economies through backward and forward linkages, the transparency and responsiveness of the regulatory framework, as well as infrastructural efficiency.

- **Duty relief and Tax Exemptions**

Duty relief and Tax Exemption regimes allow for full or partial exemption of duty/tax on specific imported raw materials integrated into finished goods to be exported.

⁸ It should also be noted that the practice of not imposing duties or taxes on goods not intended for entry into the commerce of a country, and not going to physically remain in the country is entirely consistent with WTO rules, provided that amounts that are refunded (if any) don't exceed the duties or taxes that would be normally payable. This is recognized by the World Customs Organization (WCO) in annexes B, D, F, and G of the revised Kyoto Convention.

Such exemptions are normally granted to firms that are primarily export oriented, which then must export a very high percentage of their finished production (in general least 80% of production must be exported). Because export-oriented firms' capital is not tied up by payment of duty/tax at time of import, this provides beneficiary firms with significant competitive advantage.

Although exemptions are theoretically relatively easy to administer, they can represent significant revenue risk when not coupled with effective customs audits systems to ensure that exempted inputs are not diverted to local markets. In some cases, duty relief and tax exemptions can be geared towards non-exporting firms (e.g. call centers, computer and electronic imports, as in the WTO ITA agreement⁹); and the net effect of such policies can be indeterminate when tariff exemptions on inputs, while good for final products can have negative effects for local producers of inputs.

⁹ The Information Technology Agreement (ITA) is an agreement under the World Trade Organization (WTO) establishing the elimination of tariffs for Information and Communication Technology (ICT) products. It entered into force on 1 July 1997 and now counts 70 WTO Members which besides the EU include all the largest countries (e.g. US, Japan, China, India) with the exception of some bigger ICT producing countries in South America and also non WTO members like Russia. The aim of the ITA was to encourage trade and thus the availability and use of information and communication technology worldwide by eliminating tariffs.

Box 1

Duty Rebates in Taiwan

Since 1955, Taiwan's support for exports has included rebates of import duties and other indirect taxes on inputs used directly or indirectly to produce manufactured exports. A firm that is a major, regular, law-abiding manufacturer exporter is allowed to put its duty liabilities "on account," to be canceled against evidence of subsequent exports. Firms must furnish a bank guarantee that the duty plus penalties will be paid if the exports are not produced within eighteen months. Since 1965, exporting firms have had the further option of locating in an export processing zone or becoming in-bond manufacturers, but these schemes account for only modest shares of the economy's exports. Firms (including trading firms) not involved in either of these schemes must pay duties on their imported inputs. These duties are reimbursed or canceled for exporters by the customs administration following presentation of documentation showing completed exports, receipt and appropriate disposition of foreign exchange proceeds, and the amount of the rebate to which the firm is entitled. The customs administration handles more than half a million rebate applications a year with a staff of about 200.

Either the direct exporter or one indirect exporter collects the entire rebate. The indirect exporter (for example, a firm supplying inputs for exports) can collect the rebate only if the direct exporter signs over the necessary documents. Often, a large supplier of inputs that is dependent on imported raw materials systematically acquires these documents from its small exporter customers and collects the rebates. Typically, it sells to direct exporters (or extends them credit by accepting postdated checks) at a duty-free price, but it also requires a postdated check covering the duty. This check is returned uncashed once the exporting firm signs over its documents.

Rebates on new products are calculated on a case-by-case basis, whereas rebates for established products are determined on the basis of published fixed rates. Both methods involve the systematic application by customs rebate Officials of pre-established input coefficients for each physical unit of output.

To export a product not previously exported, an exporter must obtain an export license and a list of the product's physical input-output coefficients. To work out the coefficients, government staff or consultants visit the factory, inspect its records, and examine or test the product. The list is then certified and supplied to the customs administration within a month of the exporter's application. To get a rebate, the exporter must then provide evidence on the source and quantity of all imported and dutiable inputs used. To save administrative time, any input valued at less than 1 percent of the value (FOB) of the exported product is dropped from the calculation of the rebate.

Once a product has had a long enough production history for its input and output coefficients to be fairly stable, it is switched over to the fixed rate method. To work out the fixed rate, the customs administration calculates the duties rebated on all inputs (direct or indirect) into the product over the previous twelve months compared with the combined value or volume of the corresponding exports for all makers of the product. The result is a standard rate based on value or a physical unit such as weight. Where technical processes and input coefficients of different firms vary widely, their exports are defined as different products with their own fixed rates. Fixed rates on about 6,000 products are published each July, reflecting changes since the previous year in prices, duties, and sources of inputs.

Once a fixed rate is in effect, exporters receive the stipulated amount of rebate only after providing evidence that they paid (directly or indirectly) duties and indirect taxes equal to that amount. Otherwise, they receive rebates equal only to the amount they actually paid. However, details are no longer examined. If an exporting firm shows that its actual payments were more than 20 percent higher than the standard rebate, and it can give good reasons why it needs these extra imported inputs, it can apply to an interagency committee for a redefinition of its export as a separate product eligible for a higher rebate. The system described began to be partly dismantled, along with protective tariffs, after the mid 1980s. The description is of the system in operation around 1984.

Source: Robert Wade, "Taiwan, China's Duty Rebate System,," Trade Policy Division, Country Economics

- **Temporary Imports for Re-Exporting Unaltered Products**

Under this import regime, a full or partial relief from import duties/taxes on goods imported for specific purposes is granted for a limited period of time to exporting firms

under the condition that the goods will be re-exported in the same state (other than normal depreciation due to usage) within the prescribed period. A security is generally posted to cover the duty/tax liability, and once exported; the security posted is released immediately. Products often subject to temporary admissions include: vehicles of experts temporarily working in a country, equipment used temporarily for construction purposes, goods for display in fairs, exhibitions, meetings or similar events.

A2. Logistics and Trade Facilitation Practices to encourage Exports. Because poorly functioning logistic environment including cost of clearing customs, transport costs, and transit for landlocked countries, non customs trade documentation requirement and unenforceability of legal trade documents significantly hinder successful integration into global market, measures to reduce transaction costs via streamlined administration of imports, exports, and customs clearance complemented special import regimes in many successful exporters of the developing world (De Wulf, L & Sokol, J, 2004)

A3. Undervalued Exchange Rate and Monetary policy as tools in support of Exporters. Exchange rate is central to a country's monetary policy by making domestic goods cheaper or more expensive as needed, and setting relative price of tradables vis-à-vis non-tradables. Poorly managed exchange rates and particularly excessive and sustained currency overvaluation can seriously damage domestic and international competitiveness. Although the use of the exchange rate as a policy tool for export competitiveness is still very controversial in view of the considerable disagreement on the effectiveness of devaluation as a tool for improving trade balance (Tochitskaya, I., 2007), and although conventional trade theories in the new classical tradition do not stress any role of the exchange rate policy in improving international competitiveness, it has been established (Rodrik (2007) (Dornbush, 1996), that undervalued exchange rates was part of the gamut of policy tools used to assist exporters in successful exporting countries. Dani Rodrik (2007) asserts that while overvaluation hurts growth, undervaluation facilitates it by increasing the relative profitability of tradable including exports; without discrimination across the board, For most successful exporting countries, high growth periods were clearly associated with undervalued currencies as evidenced by the experience of China-high on the US agenda for sometime, India, South Korea, and Taiwan.

B. Positive policies

To complete the battery of policy tools used to accelerate their export growth and diversification, permissive policies (special import regimes/ free access to imported inputs and other complementary policy practices to encourage exporters, trade facilitation and logistics, and use of monetary and exchange rate policies) were compounded by positive policies (both functional and selective as described in the first section).

B1. Functional Policies

As sketched out in the first section, functional policies are not meant to shift resource allocation towards particular sectors. They are policies of a general kind,

providing general resources that all firms or industries use, but are not provided adequately by the market. The key functional policies experienced in successful exporting countries included policies to improve physical infrastructure for transportation, communication and information transmission, general skills, technology. These policies generally require investments in infrastructure, support for R&D, or investments in education/ general skills.

- **Physical infrastructure.** As markets failures in the provision of public goods like infrastructure can be a major constraint to exports, successful export developing countries invested heavily in the provision of public infrastructure in support to export activities. In many countries, earlier support was provided by concentrating limited resources on Export Processing Zones (EPZs). The resulting success and impact of EPZs on exports largely explains the popularity of EPZs in many successful exporting countries.

- **General skills.** Because low literacy and poor general skills are not propitious for industrialization, and starting by and large from lower education base, successful export developing countries invested massively in education overtime by upgrading general education and worker training. Countries that did not invest in advance skills saw their exports concentrated in simple technology productions and will overtime require massive improvement in skills base to move towards more complex and sophisticated exports.

B2. Selective policies

Selective policies with impact on export performance used in successful export developing countries were centered not only on trade policies affecting selected exporters directly but also focused on industrial policies aimed at impacting industrial structures and capabilities.

- **Selective intervention for promotion of industrialization.** It is now generally accepted that successful export developing countries practiced extensive selective trade interventions from the start of their industrialization process, promoting areas of activities considered to be in long term national interest of their countries and focusing on product with maximum export potential, domestic linkages and local capabilities. Selective trade interventions were offered in various forms (extensive infant industry protection in all countries with the exception of Hong Kong, tariff and non-tariff based measures shielding domestic producers from competition; subsidies tied to export performance). These protective measures were implemented flexibly, changing with changing circumstances; in some cases, strengthening existing mature industries facing growing competition from new entrants, and using selective measures to assist firm restructuring, improve technological levels, raise quality and design, and enhance skills. Negative effects of protection were systematically offset by export orientation with obligation and rigorous performance indicators to be met as counterpart to privileges received for free imported input. It should be stressed that no incentive was given away for free. When a Government gave an incentive such as protection, subsidies or credits the beneficiary firm had the obligation to give back something in the form of reaching

Box 2

Selective Industrial Policies in South Korea

The Republic of Korea is the most successful of the Bank's borrowers in terms of industrial development and is widely regarded as a role model by other developing countries. Prior to 1963, Korea pursued a predominantly import substitution strategy that covered some heavy as well as labor-intensive light industry. From 1963, it switched to a primarily export-oriented strategy, providing strong incentives and support for exports while pursuing import substitution in a range of new, increasingly complex, industries. Its drive into these new industries, while largely in the private sector, was strongly directed by the Government. Its policies to this end included high and variable rates of effective protection, central allocation of credit, a deliberate policy to create large conglomerate enterprises, minimal reliance on foreign direct investment, and close coordination by the Government on the pace and direction of industrial development. It is generally agreed that the Government's interventions played a central role in guiding, shaping, and promoting Korea's industrial development.

The drive was supported by a rapid buildup of skills at all levels and by extensive development of the science and technology infrastructure. Firms were required to invest heavily in worker training and encouraged to launch R&D. They were given liberal access to foreign technologies but primarily in the form of new equipment and licensing rather than by the setting up of foreign controlled ventures. Interventions in the technology markets were designed to strengthen local absorptive and later innovative capabilities. Unlike most 'classic' import substituting regimes, however, Korea applied protection selectively, encouraged domestic competition, and forced early entry into export markets. It maintained a distinction between a relatively mature, competitive sector, which operated in export markets under near free trade conditions, and a set of new activities that were more highly protected, undergoing "learning", and aimed primarily and initially at domestic markets.

Source: World Bank support for Industrialization in Korea, India, and Indonesia, OED, 1992

specific export targets, output levels, investment rates, or management practices (Amsden, A. (2007).

The focus in South Korea on heavy and chemical industry was the most intensive form of intervention which despite difficulties at the beginning formed the foundation of industrial deepening and upgrading in South Korea. This was done in a range of several industries (electronics, steel, chemicals, heavy engineering and automobiles) built behind high and variable import protection and export subsidies tied to export performance. However this protection was pragmatic, non ideological, flexible, and tied to export performance in contrast to the experience of some Latin Americana countries where infant protection was non-selective, open ended and inflexible. The successful countries that provided these incentives also withheld those to non-performing sectors and industries; something that few countries were to do as it included running against vested interests.

- **Selective intervention to orient Industrial structure.** Selective intervention to change industrial structure was a deliberate and integral part of export strategies in successful export developing countries. In many cases the objective was to move progressively from SMEs to high tech and heavy industry (particularly in South Korea) and to coordinate technological activities. In the belief that large size matter and

that development of their own local production of input and machinery equipment locally was essential, South Korea focused on building their own know-how capabilities, and technological leaders, while Singapore targeted foreign investors/ multinational corporations (MNCs). Taiwan and South Korea maintained a relatively tight attitude towards MNCs by imposing restrictions on the areas where MNCs could enter. When MNCs were allowed, joint ventures were strongly encouraged to facilitate transfer of core technologies and managerial skills to nationals. These measures to affect countries' industrial structure, and FDI in the long term aimed at building the foundation for large local linkages to other industries, utilization of domestic raw materials, gain of technological knowledge, and upgrading of countries comparative advantage that would pull the economy ahead in the future.

- **Selective interventions in Human resource development.** With the aim of developing more specialized skill formation within the countries, selective intervention policies encouraged funding science and engineering, public and private provision of specialized industrial training, and the introduction of skills certification systems as an incentive for workers to acquire continued higher specialized skills. In order to upgrade skills in selected areas, investments in education were highly selective and aimed in some cases at creating high level technical capabilities in activities targeted by the Government (concentration on technical education, setting up of high level technical institutions as the Korean Advanced Institute Technology, deliberate policy to promote IT education and practices in Singapore since the 90s.)

- **Selective Intervention for Technology Support and upgrading/Innovation.**

Because enhancing the level of technology to improve competitiveness of a country is crucial, selective interventions were used to encourage and facilitate technology inflows/ adoption/ adaptation/ absorption. In order to facilitate developing countries' import and assimilation of technologies, policies that regulate the inflow of technology and enhance the abilities to absorb them were critical to raise domestic capabilities and capacities of domestic firms to import, absorb, and adapt existing and new technologies. That was achieved essentially by Government funding of general education. In the light of frequent technology changes and enhanced technology sophistication of imported technology, absorbing new technologies required scaled up R&D with a focus on improving quality, design, and productivity of firms.

- **Selective Intervention for trade Finance/Credit allocation and subsidization**

Limited access to adequate financing, high financing costs, and lack of insurance or guarantees are equivalent to trade barriers and seriously challenge exporters in

developing countries on a day-to-day basis. Firms need access to sufficient disposable resources to respond to increased international demands and meet the costs of international market research and innovation. Because one of the most important challenges for exporters is to secure financing to ensure that the transaction will actually take place, exporters usually require financing to process or manufacture products for the export markets before receiving payment. Export opportunities of firms also largely depend on access, domestically or abroad, to appropriate financial instruments for developing export transactions. Foreign buyers in many cases need a line of credit to buy goods overseas and sell them in the domestic market before paying for imports. Trade finance supplies the liquidity necessary for efficient trade and can be provided by a variety of sources including: commercial banks, official export credit agencies, multilateral development banks, insurance firms, suppliers, and purchasers.

The faster and easier the process of financing an international transaction, the more trade will be facilitated. Hence, in LDCs with poor financial markets, market failures and information asymmetries, a proactive role of Government in trade finance, with assistance and support in terms of export financing and development of efficient financial markets, would alleviate the lack of trade finance in developing countries and contribute to trade expansion and facilitation. In the long term, the first best solution is to encourage the growth and development of a vibrant and competitive financial system, preferably with strong private sector players.

Trade transactions can be facilitated by a variety of financial tools including trade financing instruments, export credits, export credit insurance and export credit guarantees; and firms can choose to finance their transactions through a variety of instruments including: captive financing, factoring, or independent credit collection agencies.

Given the underdeveloped status of financial and money markets in many developing countries, and in light of the experience of the most successful exporters of the developing world, trade finance is an area in which the government can play a direct role (provision of trade finance or credit guarantees) or indirect role (facilitating establishment or development of trade financing enterprises). In some cases, selective interventions are justified to extend support for cheaper credit through Central Bank favorable terms and conditions for refinancing of commercial banks' loans for export? Specialized financing institutions such as Export-Import Bank or Factoring houses, Export credit insurance agencies? In case of significant information asymmetry giving rise to funding gaps between innovators and mainstream financial intermediaries, the funding gaps could be addressed through (i) matching grants with direct or indirect support of the Government and (ii) venture capitals with development of the private sector.

A major controversial issue in developing countries is whether or not firms' export finance should be publicly subsidized. Based on lessons of experience, it is now established that public subsidies for export can work when they are mediated by competent and financially sound banks, and when these banks overcome the issue of

moral hazard. It has also been established that export credit guarantee schemes need a certain time threshold before they can build trust that is essential to maintain the productive harmony between the lenders and guarantors. Many OECD countries effectively promote export credit agencies¹⁰.

- **Selective Interventions for Trade Promotion Organizations/ Export marketing**

Although there are many support institutions needed for export development (Standards bureau or packaging institutions, support institution for basic infrastructure, customs, transport, air and sea ports, market access etc...), Trade Promotion Organizations (TPOs) or Export Promotion Agencies (EPA) are the most comprehensive base for export development. Although developing countries' TPOs were in the mid-80s and early 90s considered ineffective as a mechanism for delivery of export support (De Wulf, L. 2001), with the radical change in the international trade environment, TPOs have evolved considerably in recent years (Alan Reynolds, 2005; Phillip Williams, 2005). The initial criticisms¹¹ of the 80s have been considerably toned down. Recent research carried out at the World Bank on the impact of existing EPAs and their strategies based on a new data set covering 104 developing and developed countries suggest that on average they have a strong and statistically significant impact on exports (Daniel Lederman, Marcelo Olarreaga, Lucy Payton, 2006).

Given, significant asymmetric information and other market failures, as well as the public good nature of export support institutions (great needs in a changing international trade environment, unavailability of necessary services from any other source-public or private), the role of TPOs is increasingly recognized. Although TPOs may not theoretically be the best form of intervention to overcome the information asymmetries that justify some government action, Government-funded (however sourced from taxes, levies or donations) but independently managed agencies for trade support services including TPOs can play a key role to help deliver such services on a long term basis.

¹⁰ The following link provides background information of export credit support in OECD countries. http://www.oecd.org/countrylist/0,2578,en_2649_34169_1783635_1_1_1_1,00.html.

¹¹ Criticisms include: Lack of strong leadership and strategies, wrong attitudes, poorly paid staff and bloated bureaucracies; confusion of purpose resulting from the assumption of regulatory and administrative roles; failure to develop the range of necessary commercial support services; outdated information and little ability for TPO staff to provide firm-specific suggestions on improving efficiency in production processes, product design, packaging and marketing in importing countries

Global experience suggests that because developing countries have little TPOs management capacity, they should share export promotion activities with other activities such as investment promotion or export financing. So far, TPOs worldwide have been offering a variety of services including: country image building, training and capacity building on logistical and regulatory issues; and market research and promotion. Looking forward, and as few people now question the need for a focal point for export development, rather than focusing their activities on country image building which may be ineffective with questionable value added and impact, developing country TPOs with integrated services providing business development services under one roof (trade, tourism, and investment promotion?) should focus their activities on specialized assistance tailored to their domestic firms' specific needs, providing these firms with services that add value to their operations, and providing assistance that firms cannot readily obtain by using the Internet, a private consultant or some other readily available resource. A large share of TPOs' executive boards should also clearly be in the hands of the private sector, while use of public sector funding, as is the case in many OECD countries, can be justified on several grounds.

- **Selective Intervention in support to Marketing boards.** Marketing boards in developing countries mostly began during colonial times to facilitate export of agriculture products to Europe, stabilize prices faced by colonial elites and metropolitan buyers, and carry out other key functions (quality control, access to seasonal credits, access to inputs, strategic food or grain reserves, insurance against extraordinary price fluctuations, bulk inter-seasonal storage, and long-haul motorized transport). Marketing board systems were prevalent in most parts of Africa (Anglophone, Lusophone, and Francophone), South Asia and Latin America). Following decades of mixed results due to mounting deficits, poor management and perverse incentive systems created by anti-competitive behavior, state-owned and funded marketing boards went through significant liberalization reforms in the 1980s and 1990s throughout the developing world. These reforms aimed at reducing the role of the public sector and encourage private sector participation to let markets allocate scarce resources more efficiently. Despite widespread liberalization in many countries, impact was mixed and formal and informal private traders who took over many activities previously performed by state-owned marketing boards did not, in many cases, fill the voids left by the withdrawal of the marketing boards from core commodity market functions (e.g. quality control, provision of seasonal credits or crop input). Moreover, with the withdrawal of state-owned marketing boards, private monopolies or monopsonies emerged, and serious contract enforcement issues, unreliable physical security, poor communications and transport infrastructure set hurdles in market integration and price transmission. Hence, the need to consider efficient and selective Government intervention in such critical areas.

Conclusion

Replicating the success of successful HPAE in the decades ahead will be extremely challenging for many developing countries, and particularly for Sub Saharan African countries, for several reasons (e.g. lack of pull from a strong growth pole as Japan was in Asia based on the “flying geese” strategy; lack of massive aid, investments and technical assistance as the US did in Asia in the context of the cold war and anticommunism era; “adding-up” challenges when many countries pursue the same strategy, strong competition from many countries for scarce resources and FDIs, intensive competition in an increasingly globalized world, change of rules of the games in GATT/WTO although lessons can be learned from emerging economies that were able to be innovative in their interpretation and exploitation of GATT/WTO provisions, lack of Good governments and efficient institutions in many developing countries).

Although some developing countries have been able to use selective intervention successfully, Government economic intervention is extremely vulnerable to corrupt practices, inefficiency, and abuses by ruling classes, ethnic or vocal lobbying groups. The risks of Government failures are very high for various reasons (lack of clarity or conflicting objectives of Governments, lack of sufficient information, lack of adequate technical and administrative skills, agency problems, resource constraints, poor coordination with the private sector, inflexibility of Government interventions, sectional interests, corruptibility of Government officials, Governments very difficult to trust with selectivity, and can not improve the information processing capabilities of markets).

Because Government failures are bread and butter issues of development economists these risks could be mitigated through carrots-and-sticks, and greater accountability (Rodrik 2009). Challenges arising from international agreements (e.g. WTO agreement on subsidies which prohibit the use of subsidies that take the form of fiscal expenditures conditioned on exports) particularly for non-LDCs countries could overtime be mitigated in the context of the negotiations of international agreements (e.g. ongoing Doha round or Economic Partnership Agreement between the EU and ACP countries) to help developing countries adjust and be better prepared for international competition with more advanced countries.

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